

# Public Employees Disability Income Fund



## Annual Report for 2013



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## Letters of Transmittal



Her Honour, The Honourable Vaughn Solomon Schofield  
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I have the honour to transmit herewith the twenty-second Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2013.

A handwritten signature in dark ink, appearing to read 'Ken Krawetz'.

Ken Krawetz  
Minister of Finance

The Honourable Ken Krawetz  
Minister of Finance

Sir:

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the twenty-second Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 2013.

A handwritten signature in dark ink, appearing to read 'Brian Smith'.

Brian Smith  
Chair  
Public Employees Disability Plan Advisory Council

# Public Employees Disability Income Fund

## Introduction

The Public Employees Disability Income Plan was established in 1978.

The Plan provides long-term disability benefits to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

As at December 31, 2013 there were approximately 11,816 insured employees.

## DIP Advisory Council

Brian Smith, Chair  
Ministry of Finance (PEBA)

Jeannie Essey  
SaskPower

Dawn McKibben  
Public Service Commission

Carolynne Warner  
SaskTel

Norma Reynolds  
Public Service Commission

Marla St. Onge  
SaskEnergy  
Unifor Union of Canada, Local 649

Bill Lawson  
SaskTel  
Unifor Union of Canada, Locals 1S, 2S & 3

Sherri Kaytor  
CUPE 600

Rene Nicolay  
SaskPower  
IBEW Local 2067

## Participating Employers

The following employers participate in The Government of Saskatchewan Disability Income Plan:

Advocate of Children and Youth (Office of the)  
Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)  
Cafeteria Board of Saskatchewan  
Chief Electoral Officer (Office of the)  
eHealth Saskatchewan  
Farm Land Security Board  
Financial and Consumer Affairs Authority of Saskatchewan

Global Transportation Hub Authority (The)  
Information and Privacy Commissioner (Office of the)  
Innovation Saskatchewan  
Leader of the Opposition (Office of the)  
Legislative Assembly Service  
Liquor and Gaming Authority  
Meewasin Valley Authority  
NDP Caucus Office  
Ombudsman (Office of the)  
Physician Recruitment Agency of Saskatchewan  
Prairie Diagnostic Services Inc.  
Provincial Auditor (Office of the)  
Residential Tenancies (Office of the)  
Safe Saskatchewan Inc.  
Sask Pork  
Saskatchewan Arts Board  
Saskatchewan Assessment Management Agency  
Saskatchewan Cancer Agency  
Saskatchewan Centre of the Arts  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Film and Video Development Corporation  
Saskatchewan Human Rights Commission  
Saskatchewan Impaired Driver Treatment Centre  
Saskatchewan Institute of Applied Science and Technology  
Saskatchewan Milk Marketing Board  
Saskatchewan Municipal Board  
Saskatchewan Party Caucus  
Saskatchewan Power Corporation  
Saskatchewan Telecommunications Holding Corporation  
SaskBuilds Corporation  
SaskEnergy Incorporated  
SecurTek Monitoring Solutions Inc.  
Technical Safety Authority of Saskatchewan  
Tourism Saskatchewan  
TransGas Limited  
Wakamow Valley Authority  
Wanuskewin Heritage Park Authority  
Wascana Centre Authority  
Western Development Museums  
Workers' Compensation Board (The)

The Government of Saskatchewan with respect to the following individuals:

Advocate for Children and Youth  
Assistant Chief Electoral Officer  
Chief Electoral Officer  
Conflict of Interest Commissioner  
Director of Residential Tenancies  
Information and Privacy Commissioner  
Legislative Assembly (Members of the)  
Members of the Public Service of Saskatchewan as defined by *The Public Service Act, 1998* excluding employees covered by the Saskatchewan Government and General Employees' Union

Ombudsman  
Provincial Auditor  
Supervising Justice of the Peace, appointed under  
section 3 of *The Justices of the Peace, Act, 1988*

### Administration

The Public Employees Disability Income Plan is self-insured and is managed by the Public Employees Benefits Agency, Ministry of Finance.

The Disability Income Plan Advisory Council has been established under Section 16 of *The Government Organization Act* and is comprised of an equal number of management and union representatives appointed by Minister's Order. The Great-West Life Assurance Company is on contract under an Administrative Services Only agreement to provide claims adjudication and benefit payment services to the Plan.

ORG Canada and Northern Rehabilitation and Consulting Services Inc. (NRCS) provide rehabilitation services to the Plan.

### Investment Management Services

The Minister of Finance is authorized to invest money of the Disability Income Fund in any class of investments authorized for the investment of monies in the general revenue fund.

GLC Asset Management Group Ltd. (GLC) invests the monies of the Fund under a contract to provide services. The Fund pays management fees to GLC Asset Management Group Ltd. (GLC).

### Funding

Employees and employers pay premiums monthly. Employees contribute 0.825 per cent of their basic monthly salary and employers contribute between 0.925 per cent and 1.01 per cent. For some plan participants the employer pays 100 per cent.

### Benefits

After serving a Qualifying Period of 119 calendar days, the gross monthly disability benefit is equal to 75 per cent of pre-disability basic monthly salary.

Benefits are initially payable while an employee is occupationally disabled (unable to work at his/her own occupation). This period covers 24 months from the date of disability.

Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue.

Benefits will continue under the total disability provision until the earlier of return to work, death, age 65 or retirement.

### Premiums/Claims Experience

	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Premiums	\$16,683,685	\$14,177,580
Claims	\$13,958,546	\$12,304,538
# Active Claims	342	353

# Management's Report

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Disability Income Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with Canadian public sector accounting standards applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

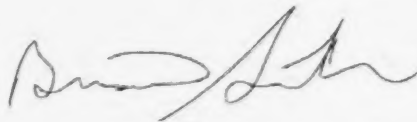
The actuary has prepared a valuation report on the provision for claims payable of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management. This report has been used in the preparation of the financial statements.

We believe the Public Employees Disability Income Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with Canadian public sector accounting standards.

The Disability Income Plan Advisory Council was established in 1978 and is comprised of an equal number of management and labour representatives. It is responsible for reviewing policies and procedures governing the operations of the Disability Income Plan, address appeals where benefits have been declined by the insurance carrier and oversee management of the investment fund.

I enclose the financial statements of the Public Employees Disability Income Fund for the year ended December 31, 2013 and the Provincial Auditor's report on these financial statements.

Regina, Saskatchewan  
April 9, 2014



Brian Smith  
Assistant Deputy Minister  
Public Employees Benefits Agency


## Actuaries' Opinion

With respect to the *Public Employees Disability Income Plan*, I have prepared an actuarial valuation as at December 31, 2013 for the purpose of determining the necessary actuarial information for financial statement reporting in accordance with Sections 3250 and 3255 of the Chartered Professional Accountants Canada (CPA Canada) Public Sector Accounting Handbook. In my opinion, for the purpose of this actuarial valuation:-

- the data on which this valuation is based are sufficient and reliable;
- where applicable, the assumptions have been adopted as management's best estimates for accounting purposes and consequently I have not rendered an opinion on them; however, in my opinion, the assumptions are, in aggregate not unreasonable, when considering the circumstances of the plan and the purpose of the valuation;
- the actuarial cost methods employed are appropriate; and
- the valuation conforms with the requirements of the Sections 3250 and 3255 of the CPA Canada Public Sector Accounting Handbook.

Nonetheless, emerging experience differing from the assumptions will result in gains or losses which will be revealed in subsequent valuations.

This report has been prepared and this actuarial opinion has been given in accordance with accepted actuarial practice.



David R. Larsen, FSA, FCIA  
Aon Hewitt

February 28, 2014



# **Public Employees Disability Income Fund**

## **Financial Statements**

**Year Ended December 31, 2013**



## Independent Auditor's Report

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Public Employees Disability Income Fund, which comprise the statement of financial position as at December 31, 2013, and the statements of operations and change in net debt, and cash flows for the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards for Treasury Board's approval and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Employees Disability Income Fund as at December 31, 2013, and the results of its operations, changes in its net debt, and its cash flows for the year ended December 31, 2013 in accordance with Canadian public sector accounting standards.

Regina, Saskatchewan  
April 9, 2014

Judy Ferguson, FCA  
Acting Provincial Auditor

**Public Employees Disability Income Fund**  
**Statement of Financial Position**

**Statement 1**

**Year Ended December 31**

	<u>2013</u>	<u>2012</u>
<b>Financial Assets</b>		
Cash	\$ 388,521	\$ 354,256
Due from Great-West Life Assurance Company (Note 4)	172,112	-
Accounts Receivable	1,155,123	727,145
Investments (Note 2c, 3)	<u>80,572,459</u>	<u>71,308,803</u>
	<u>82,288,215</u>	<u>72,390,204</u>
 <b>Liabilities</b>		
Accounts Payable	671,581	316,827
Due to Great-West Life Assurance Company (Note 4)	-	143,057
Employer premium payable	104,991	84,739
Provision for claims payable (Note 5)	<u>82,157,000</u>	<u>81,872,000</u>
	<u>82,933,572</u>	<u>82,416,623</u>
 Net Debt and Accumulated Deficit (Statement 2)	<u>\$ (645,357)</u>	<u>\$(10,026,419)</u>

Contingencies (Note 7)

(See accompanying notes to the financial statements)

**Public Employees Disability Income Fund**  
**Statement of Operations and Change in Net Debt**

**Statement 2**

**Year Ended December 31**

	<b>2013</b>		<b>2012</b>
	<b>Budget (Note 10)</b>	<b>Actual</b>	<b>Actual</b>
<b>Revenues</b>			
Premiums	\$ 15,169,000	\$ 16,683,685	\$ 14,177,580
Investment income	3,605,428	8,744,297	4,127,573
	<u>18,774,428</u>	<u>25,427,982</u>	<u>18,305,153</u>
<b>Expenses</b>			
Disability benefits	12,488,000	13,958,546	12,304,538
Change in provision for claims payable (Note 5)	-	285,000	4,961,000
Administration (Note 6)	1,083,240	1,052,455	1,041,898
Adjudication fees	523,378	556,704	478,294
Investment management fees	176,948	194,215	176,462
	<u>14,271,566</u>	<u>16,046,920</u>	<u>18,962,192</u>
Operating surplus/(deficit)	4,502,862	9,381,062	(657,039)
Net Debt and Accumulated Deficit, Beginning of Year	<u>(10,026,419)</u>	<u>(10,026,419)</u>	<u>(9,369,380)</u>
Net Debt and Accumulated Deficit, End of Year – Statement 1	<u>\$ (5,523,557)</u>	<u>\$ (645,357)</u>	<u>\$ (10,026,419)</u>

(See accompanying notes to the financial statements)

**Public Employees Disability Income Fund**  
**Statement of Cash Flows**

**Statement 3**

**Year Ended December 31**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Premiums received	\$ 16,279,272	\$ 13,848,760
Disability benefits paid	(13,661,850)	(12,274,920)
Administration expenses paid	(1,011,618)	(1,024,893)
Adjudication fees paid	(556,370)	(477,966)
	<u>1,049,434</u>	<u>70,981</u>
Cash flows from investing activities		
(Note 2c, 3):		
(Net purchases)/Net sales of investments	<u>(700,000)</u>	<u>(405,000)</u>
Net increase/(decrease) in cash	349,434	(334,019)
CASH EQUIVALENTS, BEGINNING OF YEAR	<u>211,199</u>	<u>545,218</u>
CASH EQUIVALENTS, END OF YEAR	<u>\$ 560,633</u>	<u>\$ 211,199</u>
Balance consists of:		
Cash	\$ 388,521	\$ 354,256
Due to Great West Life Assurance		
Company (Note 4)	<u>172,112</u>	<u>(143,057)</u>
Cash, end of year	<u>\$ 560,633</u>	<u>\$ 211,199</u>

(See accompanying notes to the financial statements)

## **Public Employees Disability Income Fund Notes to the Financial Statements**

**December 31, 2013**

### **1. Description of Fund**

The Public Employees Disability Income Fund (PEDIF) is a special purpose fund used to account for the transactions of the Disability Income Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993*.

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides a level of income protection during periods of occupational or total disability. Plan participants are certain employees of the public service of the Province of Saskatchewan and Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Government, through the Minister of Finance, entered into an agreement with Great-West Life Assurance Company (Great-West Life) to administer the Disability Income Plan, effective January 1, 2009.

#### Premiums

Employees and employers pay premiums monthly. Employees contribute 0.825 per cent of their basic monthly salary and employers contribute between 0.925 per cent and 1.01 per cent. For some plan participants the employer pays 100 per cent of the employees' contributions.

Effective June 1, 1994, participating employers in the Public Employees Disability Income Plan remit an additional employer premium on behalf of all insured employees. This additional employer premium funds the employer's pension contribution on behalf of disabled employees who are members of the Public Employees Pension Plan. As some disabled employees are not members of the Public Employees Pension Plan, they are not entitled to have the employer's pension contribution remitted on their behalf. In these cases, the "deemed" employer's pension contribution will be refunded back to the employer each year commencing 2005.

The refunds of the required premium, and the additional premiums, are recorded in premium revenue in the Statement of Operations and Change in Net Debt.

#### Benefits

After a qualifying period of 119 calendar days, a disabled employee receives a gross monthly disability benefit equal to 75 per cent of pre-disability basic monthly salary. Benefits are initially payable while an employee is occupationally disabled (unable to work at his/her own occupation). This period covers 24 months from the date of disability. Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue. Benefits will continue under the total disability provision until the earlier of return to work, death, age 65 or retirement.

### **2. Significant Accounting Policies**

These financial statements are prepared in accordance with Canadian public sector accounting standards applicable for governments. These statements do not present a Statement of Re-measurement Gains and Losses as it is not practical to determine the unrealized portion of investment income relating to its pooled fund investments. As a result, all income attributable to its pooled fund investments is recorded in investment income on the Statement of Operations and Change in Net Debt. The following accounting policies are considered significant:

#### **a) Premiums revenue**

Premiums are recognized as revenue when due.

b) Disability benefits expense

Disability benefits expense is recognized commencing in the year the claim occurred.

c) Investments

The investments are held by GLC Asset Management Group Ltd.(GLC) on behalf of PEDIF in an assortment of pooled funds including a: money market, bond, mortgage, Canadian equity, US equity, and International equity pooled fund. All investments are valued at fair value. The fair value of short-term notes is based on cost. The cost of short-term notes plus accrued interest approximates their market value. Canadian government and corporate bonds, mortgages, Canadian and U.S. equities, and non-North American equities are valued at the closing bid price. The market values of investments in foreign currencies are translated into Canadian dollars at the closing rate of exchange on December 31, 2013. The purchase and sales of investments, income and expenses are translated at the rate of exchange prevailing on the respective dates of such transactions.

d) Provision for claims payable

The provision for claims payable represents the present value of future payments arising from claims made prior to year-end. This provision includes an estimated amount for claims incurred but not yet reported at year-end. The provision for claims payable is determined pursuant to an actuarial valuation. Any resulting change in this liability is recognized as a revenue or expense in the Statement of Operations and Change in Net Debt.

e) Use of estimates

The preparation of financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the year. Significant items subject to such estimates and assumptions include the determination of the provision for unpaid claims and adjudication expenses to be incurred on claims not yet paid. Accounts payable includes an estimated accrual for unpaid claims not reported for 2013 of \$372,885 (2012 - \$85,032) with related adjudication expenses on these claims of \$1,182 (2012 - \$808). Actual results could differ from those estimates.

The primary measurement uncertainty arising from the use of estimates which may affect reported amounts, relates to the valuation of the provision for claims payable – see Note 5.

f) Financial instruments

Receivables and payables are measured at cost which approximates their fair value. As described in Note 2 c) the investments are held by GLC and are measured at fair value.

Changes in fair value are recognized in the Statement of Operations and Change in Net Debt.

### 3. Investments

At December 31, 2013, the investments held on behalf of PEDIF by GLC in various pooled funds consist of short-term notes, Canadian government and corporate bonds, mortgages, Canadian equities, US Equities, and Non-North American (NNA) equities.

GLC does not remit the investment income to PEDIF; it reinvests the income, net of management fees, in the pooled funds.



## Fair Value

The Plan has classified its fair-valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's financial instruments within this fair-value hierarchy:

(Thousands of dollars)

Pooled Funds	Level 1	Level 2	Level 3	Total
Money Market Fund		\$2,650		\$2,650
Bond Fund		\$35,457		\$35,457
Mortgage Fund		\$8,881		\$8,881
Equity funds		\$33,584		\$33,584
Total		\$80,572		\$80,572

### 4. Due (to)/from Great-West Life Assurance Company

According to the agreement between PEBA and Great-West Life Assurance Company, Great-West Life has established an account for receipt of PEDIF's premiums and payment of claims and administrative expenses. The balance in this account represents monies due (to)/from Great-West Life (from)/to PEDIF. If the transfers in process are greater than the balance in the account, there is a net due to Great-West Life.

### 5. Provision for Claims Payable

An actuarial valuation was performed by Aon Hewitt as at December 31, 2013, to determine the liability for the future cost of existing claims of disabled members. The valuation includes a provision for claims incurred but not yet reported.

The provision for claims payable as at December 31 and the principal components of the change in provision for claims payable during the year were as follows:

	2013	2012
Provision for claims payable, beginning of year	\$81,872,000	\$76,911,000
Interest on previous liability	4,503,000	3,269,000
Mortality and termination experience (gain)	(2,735,000)	2,584,000
Change in assumptions	-	(4,090,000)
New claims	11,871,000	10,471,000
Data Changes	13,000	(15,000)
Expected benefits payments	(13,367,000)	(11,892,000)
Addition of expense reserve	-	4,634,000
Provision for claims payable, end of year	\$82,157,000	\$81,872,000



The actuarial valuation is based on the following assumptions: 1) the allowance for claim termination is based on the Canadian Group Long-Term Disability Termination Experience Report, 1988 to 1994, as published by the Canadian Institute of Actuaries adjusted for experience; 2) the interest rate assumed is 5.50 per cent (2012 – 5.50 per cent); 3) the inflation rate assumed is 2.5 per cent (2012 – 2.5 per cent) for all future years. An explicit reserve has been added to account for future non-investment management expenses associated with the current disability claimants.

The amount of benefits payable under the Plan may be increased on October 1 each year. The increase in benefits is indexed, subject to a maximum of 3.0 per cent per annum, to the Consumer Price Index for the year ending on the immediately preceding July 1.

If the actuarial valuation assumed no indexing of benefits each year, the liability at December 31, 2013 would be \$71,631,000 (2012 – \$71,330,000).

The liability for claims is based on a number of assumptions about future events including: recovery and mortality rates, interest rates and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate, cost of living adjustment and recovery rates.

- a 1 per cent decrease in discount rate would result in a 4.7 per cent increase (2012 – 4.9 per cent) in the liability including the cost of living adjustment as determined by the consumer price index
- a 1 per cent decrease in the cost of living adjustment would result in a 5.4 per cent decrease (2012 – 5.4 per cent) in the liability
- a 10 per cent decrease in recovery rates would result in a 4.4 per cent increase (2012 – 4.5 per cent) in the liability

The provision for claims payable is long-term in nature and there is no market for settling these obligations.

## 6. Administration Expenses

PEBA administers PEDIF for a mutually agreed upon fee.

## 7. Contingencies

PEDIF is a party to a number of lawsuits initiated by claimants relating to disability benefits. The ultimate outcome of these lawsuits is not yet determinable. Accordingly, no liability has been recorded in these financial statements. Liabilities arising from the resolution of these lawsuits will be accounted for in the year the lawsuits are settled.

## 8. Investment Performance

PEDIF's investments are represented by the amounts held by GLC. (see Note 2c, 3). The following is a summary of the investment performance:

	2013	Four-year annualized return
Actual (a)	12.21%	7.85%
Benchmark (b)	8.68%	6.73%

(a) The annual returns are before deducting investment expenses.

- (b) The benchmark return is PEDIF's target rate of return for its investments. The benchmark return is based on the performance of PEDIF's planned investment portfolio.

The assets within the PEDIF can be invested as authorized within the PEDIF's Statement of Investment Policies and Goals (Investment Policy). The Disability Income Plan Council (Council) has an agreement in place with GLC to invest the monies of PEDIF in a selection of investment mandates offered by GLC consistent with the Investment Policy. PEDIF pays investment management fees to GLC for providing this service.

## 9. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an Investment Policy, which is approved annually. The Investment Policy provides guidelines to the Plan's investment manager for the asset mix of the portfolio regarding quality and quantity of fixed income and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. PEBA reviews regular compliance reports from its investment manager as to its compliance with the Investment Policy. PEBA also reviews regular compliance reports from the pooled fund custodian as to the investment manager's compliance with the Investment Policy.

### Credit risk

The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2013 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of dollars)	
	2013	2012
	Carrying value	Carrying value
Accounts receivable	\$ 1,155	\$ 727
Due (to)/from Great-West Life Assurance Company	172	(143)
Investments <sup>1</sup>	46,988	43,792

<sup>1</sup>Bonds, mortgages & money market investments held on behalf of PEDIF.

Accounts receivable are primarily made up of employee and employer contributions receivable. Employee and employer contributions receivable are generally received within 30 days.

Credit risk within investments is primarily related to the fixed income pooled funds. It is managed through the Investment Policy that limits fixed term investments to those of high credit quality (minimum rating for bonds and mortgages, BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

### Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

### Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would increase the accumulated deficit by \$2.6 million at December 31, 2013, representing 5.8 per cent of the \$44.3 million fair value of fixed income investments.

### Foreign exchange

The Plan is exposed to changes in the U.S. dollar exchange through its U.S. equity pooled fund. Also, the Plan is exposed to EAFE (Europe, Australasia and Far East) currencies through its Non-North American equity pooled fund. Exposure to both U.S. equities and Non-North American equities is limited to a maximum 18 per cent each of the market value of the total investment portfolio. At December 31, 2013, the Plan's exposure to U.S. equities was 15.7 per cent (2012 – 13.4 per cent) and its exposure to Non-North American equities was 12.6 per cent (2012 – 11.8 per cent).

At December 31, 2013, a 10 per cent appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$1.27 million increase in net debt and accumulated deficit. A 10 per cent appreciation in the Canadian dollar versus the EAFE currencies would result in approximately a \$1.02 million increase in net debt and accumulated deficit.

### Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets through its pooled funds. Equity pooled funds comprise 41.7 per cent (2012 – 38.6 per cent) of the carrying value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated in net debt and accumulated deficit based on changes in the Plan's benchmark indices at December 31, 2013:

	(Change in \$000's)	
	10% increase	10% decrease
S&P/TSX Composite Index	\$ 1,074	\$ (1,074)
S&P 500 Index	1,268	(1,268)
MSCI EAFE Index	1,016	(1,016)

### **Liquidity risk**

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable and claims payable are due within one year.

## **10. Budget**

The annual budget was approved by the Disability Income Plan Advisory Council.

## 11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to PEDIF by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties." These transactions are recorded at agreed upon exchange amounts.

Due to the nature of PEDIF, substantially all premiums are received from related parties.

At year-end, the following amounts were due to/from related parties as a result of the transactions referred to above:

	<u>2013</u>	<u>2012</u>
Accounts receivable	\$1,131,140	\$694,319
Accounts payable and Employer premium payable	\$352,361	\$291,312

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

## 12. Comparative Figures

Certain 2012 comparative figures have been reclassified to conform to current period presentation. With regard to investment credit risk carrying value in note 9, the comparative figures are reported on the same basis as the carrying value for 2013.